

# BUSINESS SITUATION

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THE general picture of the U.S. economy in the second quarter of 2001 that is indicated by the “final” estimates of the national income and product accounts (NIPA’s) is changed little from that shown by the “preliminary” estimates. The final estimates reflect the incorporation of revised and newly available source data (see the section “Revisions”).

According to the final estimates,

- The pace of economic growth continued to slow in the second quarter. Real gross domestic product (GDP) increased 0.3 percent, the weakest showing since the first quarter of 1993, when GDP decreased 0.1 percent (table 1 and chart 1).<sup>1</sup> Over the past four quarters, real GDP has increased only 1.2 percent. In contrast, the average rate of growth from the second quarter of 1991 (the beginning of the current expansion) through the second quarter of 2000 was 3.6 percent.

- The major contributors to the second-quarter increase in real GDP were consumer spending and government spending (table 2).<sup>2</sup>

- GDP growth was dampened by decreases in business investment in equipment and software and in exports of goods.

- Real private inventory stocks were liquidated at a faster pace in the second quarter than in the first; the back-to-declines in inventory stocks are the first since 1991.

- Exports and imports decreased for the third consecutive quarter, and both decreased more in second quarter than in the first.

- Real final sales of domestic product—GDP less inventory investment—increased 0.7 percent after increasing 4.0 percent.

- Real gross domestic purchases—a measure of domestic demand for goods and services regard-

1. Quarterly estimates in the NIPA’s are expressed at seasonally adjusted annual rates. Quarter-to-quarter dollar changes are the differences between the published estimates. Quarter-to-quarter percent changes are annualized and are calculated from unrounded data unless otherwise specified.

Real estimates are calculated using a chain-type Fisher formula with annual weights for all years and quarterly weights for all quarters; real estimates are expressed both as index numbers (1996=100) and as chained (1996) dollars. Price indexes (1996=100) are also calculated using a chain-type Fisher formula.

2. In the NIPA’s, consumer spending is shown as personal consumption expenditures, and government spending is shown as government consumption expenditures and gross investment.

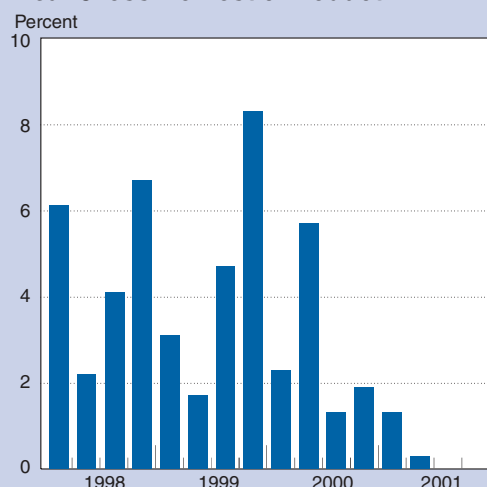
**Table 1.—Real Gross Domestic Product, Real Gross Domestic Purchases, and Real Final Sales to Domestic Purchasers**  
[Seasonally adjusted at annual rates]

	Millions of chained (1996) dollars					Percent change from preceding quarter				
	Level		Change from preceding quarter							
	2001	2000	2001	2000	2001	2000	2001	2000	2001	2001
	II	III	IV	I	II	III	IV	I	II	
Gross domestic product .....	9,341.7	30.7	43.8	30.6	7.2	1.3	1.9	1.3	0.3	
Less: Exports of goods and services .....	1,108.3	28.7	-11.8	-3.4	-35.8	10.6	-4.0	-1.2	-11.9	
Plus: Imports of goods and services .....	1,515.0	47.2	-2.1	-19.9	-33.6	13.0	-0.5	-5.0	-8.4	
<b>Equals: Gross domestic purchases .....</b>	<b>9,720.4</b>	<b>47.0</b>	<b>52.9</b>	<b>16.0</b>	<b>10.0</b>	<b>2.0</b>	<b>2.2</b>	<b>0.7</b>	<b>0.4</b>	
Less: Change in private inventories .....	-38.3	-27.2	-8.9	-69.9	-11.2					
<b>Equals: Final sales to domestic purchasers .....</b>	<b>9,743.7</b>	<b>68.9</b>	<b>64.6</b>	<b>76.7</b>	<b>19.9</b>	<b>2.9</b>	<b>2.7</b>	<b>3.2</b>	<b>0.8</b>	
Personal consumption expenditures .....	6,428.4	65.8	49.0	47.4	39.9	4.3	3.1	3.0	2.5	
Durable goods .....	938.1	17.6	-4.7	23.0	15.7	8.2	-2.1	10.6	7.0	
Nondurable goods .....	1,879.4	19.2	2.7	11.2	1.4	4.2	0.6	2.4	0.3	
Services .....	3,629.8	30.6	48.6	16.3	24.7	3.5	5.6	1.8	2.8	
Private fixed investment .....	1,696.4	10.9	2.0	8.2	-43.9	2.5	0.5	1.9	-9.7	
Nonresidential .....	1,320.9	23.4	3.4	-0.6	-53.0	7.1	1.0	-0.2	-14.6	
Structures .....	282.3	9.7	5.1	8.4	-9.4	15.2	7.6	12.3	-12.2	
Equipment and software .....	1,043.2	12.7	-3.0	-11.6	-44.5	4.7	-1.1	-4.1	-15.4	
Residential .....	378.3	-10.2	-1.0	7.6	5.4	-10.4	-1.1	8.5	5.9	
Government consumption expenditures and gross investment .....	1,623.0	-7.2	12.8	20.6	19.6	-1.8	3.3	5.3	5.0	
Federal .....	554.7	-15.1	6.1	4.3	2.5	-10.4	4.6	3.2	1.8	
National defense .....	362.4	-9.7	8.7	6.5	2.1	-10.4	10.5	7.5	2.3	
Nondefense .....	192.3	-5.5	-2.5	-2.2	0.5	-10.4	-5.1	-4.3	0.9	
State and local .....	1,067.4	7.5	6.7	16.2	16.9	3.0	2.7	6.4	6.6	
<b>Addendum: Final sales of domestic product .....</b>	<b>9,364.8</b>	<b>52.8</b>	<b>55.4</b>	<b>91.1</b>	<b>17.0</b>	<b>2.3</b>	<b>2.4</b>	<b>4.0</b>	<b>0.7</b>	

NOTE.—Chained (1996) dollar series are calculated as the product of the chain-type quantity index and the 1996 current-dollar value of the corresponding series, divided by 100. Because the formula for the chain-type quantity indexes uses weights of more than one period, the corresponding chained-dollar estimates usually are not additive. Chained (1996) dollar levels and residuals, which measure the extent of nonadditivity in each table, are shown in NIPA tables 1.2, 1.4, and 1.6. Percent changes are calculated from unrounded data. Percent changes in major aggregates are shown in NIPA table S.1. (See “Selected NIPA Tables,” which begins on page D-2 in this issue.)

**CHART 1**

## Real Gross Domestic Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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less of where they were produced—increased 0.4 percent after increasing 0.7 percent.

- The price index for gross domestic purchases—a measure of prices paid by U.S. residents—increased 1.3 percent, about half as much as in the first quarter.

- Real disposable personal income (DPI) increased 2.4 percent, a little slower than in the first quarter, and the personal saving rate—personal saving as a percentage of current-dollar DPI—was 1.1 percent, the same as in the first quarter.

**Table 2.—Contributions to Percent Change in Real Gross Domestic Product**

[Seasonally adjusted at annual rates]

	2000		2001	
	III	IV	I	II
<b>Percent change at annual rate:</b>				
Gross domestic product.....	1.3	1.9	1.3	0.3
<b>Percentage points at annual rates:</b>				
Personal consumption expenditures .....	2.88	2.14	2.05	1.72
Durable goods.....	0.65	-0.17	0.83	0.56
Nondurable goods.....	0.84	0.12	0.49	0.06
Services.....	1.38	2.19	0.73	1.10
Gross private domestic investment .....	-0.51	-0.42	-2.28	-2.16
Fixed investment .....	0.44	0.09	0.33	-1.74
Nonresidential .....	0.91	0.13	-0.02	-1.99
Structures .....	0.45	0.24	0.39	-0.44
Equipment and software .....	0.46	-0.11	-0.41	-1.55
Residential .....	-0.47	-0.05	0.35	0.25
Change in private inventories .....	-0.95	-0.50	-2.61	-0.42
Net exports of goods and services .....	-0.70	-0.39	0.63	-0.12
Exports.....	1.13	-0.46	-0.13	-1.37
Goods.....	1.36	-0.58	-0.19	-1.45
Services.....	-0.22	0.12	0.06	0.08
Imports.....	-1.84	0.07	0.76	1.25
Goods.....	-1.48	0.07	0.87	1.21
Services.....	-0.36	0	-0.11	0.05
Government consumption expenditures and gross investment .....	-0.32	0.58	0.92	0.87
Federal .....	-0.66	0.27	0.19	0.11
National defense.....	-0.42	0.38	0.28	0.09
Nondefense .....	-0.24	-0.11	-0.09	0.02
State and local.....	0.34	0.31	0.73	0.76

NOTE.—More detailed contributions to percent change in real gross domestic product are shown in NIPA table 8.2. Contributions to percent change in major components of real gross domestic product are shown in tables 8.3 through 8.6.

## Revisions

The revisions to the second-quarter estimates were small. The final estimate of a 0.3-percent increase in real GDP is 0.1 percentage point more than the preliminary estimate (table 3); for 1981–2000, the average revision (without regard to the sign) from the preliminary estimate to the final estimate was 0.3 percentage point.

The largest contributor to the slight upward revision to real GDP was imports of services (0.12 percentage point). Imports are a subtraction in the calculation of GDP. The revision to imports of services reflected the incorporation on a “best-change” basis of new and revised data from BEA’s international transactions accounts.<sup>3</sup>

The final estimate of a 1.3-percent increase in the prices of gross domestic purchases is 0.1 percentage point less than the preliminary estimate. The small downward revision primarily reflected downward revisions to the prices of personal consumption expenditures for services: The implicit price of imputed financial charges was revised down based on newly available data from the Federal Deposit Insurance Corporation, and the implicit price of brokerage and investment counseling was revised down based on newly available data from the Securities and Exchange Commission.

3. Incorporating the source data on a best-change basis provides accurate measures of the change in the estimates for all periods, but results in levels of the estimates that are not fully consistent with the source data. In general, BEA incorporates source data on best-change basis in order to preserve accurate estimates of growth and consistent time series. (For more information, see the box “Incorporating Source Data on the Basis of Best Change,” in Eugene P. Seskin and David F. Sullivan, “Annual Revision of the National Income and Product Accounts,” *SURVEY OF CURRENT BUSINESS* 80 (August 2000): 16.)

**Table 3.—Revisions to Change in Real Gross Domestic Product and Prices, Second Quarter 2001**

[Seasonally adjusted at annual rates]

	Percent change from preceding quarter		Final estimate minus preliminary estimate	
	Preliminary estimate	Final estimate	Percentage points	Billions of chained (1996) dollars
<b>Gross domestic product</b> .....	<b>0.2</b>	<b>0.3</b>	<b>0.1</b>	<b>3.3</b>
Less: Exports .....	-12.2	-11.9	0.3	0.9
Goods .....	-17.4	-17.3	0.1	0.2
Services .....	1.6	2.4	0.8	0.6
Plus: Imports .....	-7.7	-8.4	-0.7	-2.9
Goods .....	-9.7	-9.5	0.2	0.4
Services .....	3.3	-2.0	-5.3	-3.0
<b>Equals: Gross domestic purchases</b> .....	<b>0.4</b>	<b>0.4</b>	<b>0</b>	<b>0</b>
Less: Change in private inventories .....				0.1
<b>Equals: Final sales to domestic purchasers</b> .....	<b>0.8</b>	<b>0.8</b>	<b>0</b>	<b>-0.5</b>
Personal consumption expenditures .....	2.5	2.5	0	0.9
Durable goods .....	7.1	7.0	-0.1	-0.3
Nondurable goods .....	0.4	0.3	-0.1	-0.5
Services .....	2.6	2.8	0.2	1.7
Fixed investment .....	-9.8	-9.7	0.1	0.5
Nonresidential .....	-14.6	-14.6	0	0.3
Structures .....	-13.4	-12.2	1.2	0.9
Equipment and software .....	-15.1	-15.4	-0.3	-0.9
Residential .....	5.8	5.9	0.1	0.2
Government consumption expenditures and gross investment .....	5.4	5.0	-0.4	-1.5
Federal .....	1.5	1.8	0.3	0.5
National defense .....	2.2	2.3	0.1	0.1
Nondefense .....	0.1	0.19	0.8	0.4
State and local .....	7.4	6.6	-0.8	-1.9
<b>Addenda:</b>				
Final sales of domestic product .....	0.6	0.7	0.1	3.0
Gross domestic purchases price index .....	1.4	1.3	-0.1	
GDP price index .....	2.2	2.1	-0.1	

NOTE.—The final estimates for the second quarter of 2001 incorporate the following revised or additional major source data that were not available when the preliminary estimates were prepared.

*Personal consumption expenditures:* Retail sales for June (revised), bank services data for the second quarter, and brokerage services data for the second quarter.

*Nonresidential fixed investment:* Construction put-in-place for May and June (revised) and manufacturers’ shipments of machinery and equipment for June (revised).

*Residential fixed investment:* Construction put-in-place for May and June (revised) and sales of existing houses for June (revised).

*Exports and imports of goods and services:* International transactions data for the first quarter of 2001 (revised) and the second quarter of 2001 (new).

*Government consumption expenditures and gross investment:* State and local construction put-in-place for May and June (revised).

*Wages and salaries:* Employment, average hourly earnings, and average weekly hours for June (revised).

*GDP prices:* Export and import prices for April through June (revised), unit-value index for petroleum imports for June (revised), and prices of single-family houses under construction for the quarter (revised).

## Gross National Product

The growth of real gross national product (GNP) in the second quarter was the slowest since the first quarter of 1993. Real GNP—goods and services produced by labor and property supplied by U.S. residents—increased 0.3 percent, the same as real GDP (table 4).<sup>4</sup> Income receipts from the rest of the world and income payments to the rest of the world decreased about the same amount, reflecting decreases in interest income and in corporate profits.

Real GNP on a command basis—which measures the purchasing power of goods and services produced by the U.S. economy—increased 0.9 percent, 0.6 percentage point more than real GNP. The larger increase in command-basis GNP reflected an improvement in the terms of trade (chart 2).<sup>5</sup> In the first quarter, real GNP on a command basis also increased more than real GNP.

4. GNP equals GDP plus income receipts from the rest of the world less income payments to the rest of the world.

The national saving rate—gross saving as a percentage of GNP—decreased to 17.2 percent from 17.3 percent, the fourth consecutive decrease. The second-quarter rate was the lowest since the second quarter of 1996.

5. In the estimates of command-basis GNP, the current-dollar value of the sum of exports of goods and services and income receipts is deflated by the implicit price deflator (IPD) for the sum of imports of goods and services and income payments.

The terms of trade is a measure of the relationship between the prices that are received by U.S. producers for exports of goods and services and the prices that are paid by U.S. purchasers for imports of goods and services. It is measured by the following ratio, with the decimal point shifted two places to the right: In the numerator, the IPD for the sum of exports of goods and services and of income receipts; in the denominator, the IPD for the sum of imports of goods and services and of income payments.

Changes in the terms of trade reflect the interaction of several factors, including movements in exchange rates, changes in the composition of the traded goods and services, and changes in producers' profit margins. For example, if the U.S. dollar depreciates against a foreign currency, a foreign manufacturer may choose to absorb this cost by reducing the profit margin on the product it sells to the United States, or it may choose to raise the price of the product and risk a loss in market share.

**Table 4.—Relation of Real Gross Domestic Product, Real Gross National Product, and Real Command-Basis Gross National Product**

[Seasonally adjusted at annual rates]

	Millions of chained (1996) dollars					Percent change from preceding quarter			
	Level	Change from preceding quarter							
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
Gross domestic product .....	9,341.7	30.7	43.8	30.6	7.2	1.3	1.9	1.3	0.3
Plus: Income receipts from the rest of the world .....	319.6	-3.0	12.7	-24.0	-30.7	-3.3	14.8	-23.2	-30.7
Less: Income payments to the rest of the world .....	325.7	-1.7	-7.9	-10.6	-29.5	-1.8	-8.2	-11.1	-29.3
Equals: Gross national product .....	9,335.5	29.5	64.5	17.4	6.4	1.3	2.8	0.8	0.3
Less: Exports of goods and services and income receipts from the rest of the world .....	1,428.0	24.9	2.0	-29.1	-68.2	6.8	0.5	-7.4	-17.0
Plus: Command-basis exports of goods and services and income receipts from the rest of the world <sup>1</sup> .....	1,467.3	15.9	2.5	-20.5	-54.4	4.2	0.7	-5.2	-13.6
Equals: Command-basis gross national product .....	9,374.9	2.5	65.0	26.1	20.2	0.9	2.8	1.1	0.9
Addendum:									
Term of trade <sup>2</sup> .....	102.8	-0.6	0	0.6	1.1	-2.3	0	2.4	4.4

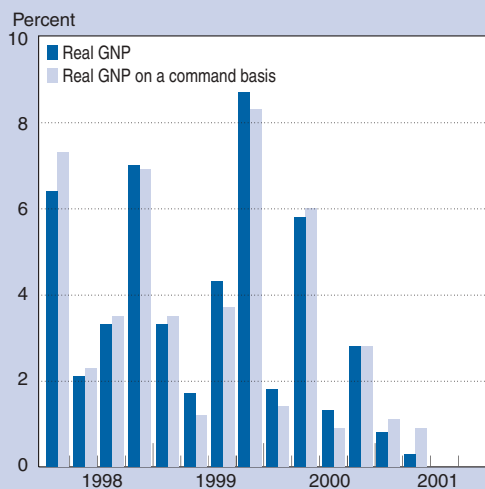
1. Exports of goods and services and income receipts deflated by the implicit price deflator for imports of goods and services and income payments.

2. Ratio of the implicit price deflator for exports of goods and services and income receipts to the corresponding implicit price deflator for imports divided by 100.

NOTE.—See note to table 1 for an explanation of chained (1996) dollar series. Levels of these series are shown in NIPA tables 1.10 and 1.11.

**CHART 2**

## Real Gross National Product



Note.—Percent change at annual rate from preceding quarter; based on seasonally adjusted estimates.

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## Corporate Profits

Profits decreased again in the second quarter. Profits from current production decreased \$30.0 billion (or 3.8 percent at a quarterly rate), about half as much as in the first quarter and also less than the \$47.4 billion drop in the fourth quarter of 2000 (table 5).<sup>6</sup>

The revised estimate for the second quarter is \$1.5 billion less than the preliminary estimate. Profits of domestic financial corporations were revised down \$14.9 billion, mainly reflecting newly available source data from an insurance industry trade association (on the amount of storm damage and the extent of insurance coverage) and revised and newly available source data from the Federal Deposit Insurance Corporation (on bank earnings). This revision was largely offset by upward

revisions to profits of domestic nonfinancial corporations and to profits from the rest of the world.

Domestic corporate profits decreased 5.2 percent in the second quarter. They were reduced about \$19 billion by the effects of Tropical Storm Allison and other severe storms. Excluding the storm-related losses, domestic profits from current production decreased 1.4 percent (quarterly rate).

Profits of domestic financial corporations decreased \$19.5 billion (10.6 percent). Payments of storm-related insurance benefits accounted for about \$18 billion of the decrease.

Profits of domestic nonfinancial corporations decreased \$14.4 billion (3.1 percent). Unit profits of these corporations fell, as unit costs increased again after large increases in the first and fourth quarters. The real output of domestic nonfinancial corporations increased a little, as it had in the first quarter.<sup>7</sup> Profits of nonfinancial domestic corpora-

6. Profits from current production is estimated as the sum of profits before tax, the inventory valuation adjustment, and the capital consumption adjustment; it is shown in NIPA tables 1.9, 1.14, 1.16, and 6.16C (see "Selected NIPA Tables," beginning on page D-2 of this issue) as corporate profits with inventory valuation and capital consumption adjustments. Percent changes in profits are shown at quarterly, not annual, rates.

7. Output is defined here as nonfinancial corporate gross product. It is a measure of the contribution, or value added, of nonfinancial corporations to the Nation's output and is measured as the sum of income generated by these businesses.

**Table 5.—Corporate Profits**  
[Seasonally adjusted]

	Billions of dollars (annual rate)					Percent change (quarterly rate)			
	Level	Change from preceding quarter							
	2001	2000		2001		2000		2001	
	II	III	IV	I	II	III	IV	I	II
<b>Profits from current production.....</b>	<b>759.8</b>	<b>2.2</b>	<b>-47.4</b>	<b>-57.8</b>	<b>-30.0</b>	<b>0.3</b>	<b>-5.3</b>	<b>-6.8</b>	<b>-3.8</b>
Domestic industries.....	615.8	-9.8	-63.2	-41.1	-33.9	-1.3	-8.4	-5.9	-5.2
Financial.....	165.4	1.0	0.3	-2.6	-19.5	0.5	0.2	-1.3	-10.6
Nonfinancial.....	450.4	-10.8	-63.4	-38.6	-14.4	-1.9	-11.2	-7.7	-3.1
Rest of the world.....	144.0	12.1	15.8	-16.8	4.0	9.3	11.2	-10.7	2.9
Receipts (inflows).....	194.0	-3.0	5.4	-9.4	-7.0	-1.4	2.6	-4.5	-3.5
Payments (outflows).....	50.0	-15.0	-10.4	7.4	-11.0	-19.1	-16.2	13.7	-18.0
IVA.....	-8.8	11.2	-3.7	5.4	-6.9	.....	.....	.....	.....
CCAdj.....	30.3	-5.1	-2.0	-2.4	-5.7	.....	.....	.....	.....
Profits before tax.....	738.3	-3.7	-41.8	-60.8	-17.4	-0.4	-4.9	-7.4	-2.3
Profits tax liability.....	228.0	-5.5	-21.4	-16.7	-8.8	-2.0	-7.8	-6.6	-3.7
Profits after tax.....	510.3	1.8	-20.4	-44.1	-8.6	0.3	-3.5	-7.8	-1.7
Cash flow from current production.....	905.1	12.1	-23.2	-35.1	-6.5	1.3	-2.4	-3.7	-0.7
<b>Domestic industry profits:</b>									
Corporate profits of domestic industries with IVA.....	585.4	-4.7	-61.2	-38.6	-28.4	-0.6	-8.6	-5.9	-4.6
Financial.....	183.3	2.8	1.3	-2.2	-18.9	1.4	0.7	-1.1	-9.3
Nonfinancial.....	402.1	-7.4	-62.6	-36.4	-9.5	-1.4	-12.3	-8.1	-2.3
Manufacturing.....	93.4	-15.6	-40.0	-29.0	3.0	-8.9	-25.1	-24.3	3.4
Transportation and public utilities.....	62.6	2.6	-3.2	-0.9	-3.8	3.8	-4.5	-1.3	-5.7
Wholesale trade.....	34.0	-1.2	-7.8	-15.6	-6.3	-1.9	-12.2	-28.0	-15.6
Retail trade.....	85.6	1.5	-8.2	8.6	0.7	1.8	-9.7	11.3	0.8
Other.....	126.5	5.3	-3.4	0.6	-3.2	4.2	-2.5	0.4	-2.4
<b>Dollars</b>									
Unit price, costs, and profits of nonfinancial corporations:									
Unit price.....	1.044	0.002	0.002	0.004	0.006	.....	.....	.....	.....
Unit labor cost.....	0.703	0.004	0.013	0.009	0.005	.....	.....	.....	.....
Unit nonlabor cost.....	0.257	0	0.001	0.004	0.003	.....	.....	.....	.....
Unit profits from current production.....	0.084	-0.003	-0.013	-0.007	-0.003	.....	.....	.....	.....

NOTE.—Levels of these and other profits series are shown in NIPA tables 1.14, 1.16, 6.16C, and 7.15.

IVA Inventory valuation adjustment  
CCAdj Capital consumption adjustment

tions were reduced about \$1 billion as a result of uninsured losses associated with the storms.

An increase in rest-of-world profits reflected a larger decrease in payments of earnings by U.S. affiliates of foreign corporations than in receipts of earnings from foreign affiliates of U.S. corporations.<sup>8</sup>

Cash flow from current production—a profits-related measure of internally generated funds available for investment—decreased \$6.5 billion in the second quarter after decreasing \$35.1 billion in the first and \$23.2 billion in the fourth.<sup>9</sup> Despite the drop in cash flow, the ratio of cash flow to non-residential fixed investment—an indicator of the share of the current level of investment that could be financed by internally generated funds—increased from 69.5 percent to 71.8 percent. During 1991–99, the ratio fluctuated between 72 percent and 94 percent, and it averaged 84 percent.

***Domestic industry profits and related measures.—***  
Domestic industry profits decreased \$28.4 billion in the second quarter after dropping \$38.6 billion

8. Profits from the rest of the world is calculated as (1) receipts by U.S. residents of earnings from their foreign affiliates plus dividends received by U.S. residents from unaffiliated foreign corporations minus (2) payments by U.S. affiliates of earnings to their foreign parents plus dividends paid by U.S. corporations to unaffiliated foreign residents. These estimates include capital consumption adjustments (but not inventory valuation adjustments) and are derived from BEA's international transactions accounts.

9. Cash flow from current production is undistributed profits with inventory valuation and capital consumption adjustments plus the consumption of fixed capital.

in the first and \$61.2 billion in the fourth.<sup>10</sup> The largest change in the second quarter was a decrease in profits of financial corporations; profits of non-financial corporations decreased about half as much (chart 3). Within nonfinancial corporations, the drops were in wholesale trade, transportation and public utilities, and "other" nonfinancial corporations. Manufacturing profits increased in the second quarter after decreasing for three consecutive quarters; food and chemicals posted the biggest increases in the second quarter, and industrial machinery posted the biggest decrease.

Profits before tax decreased less than profits from current production. The difference reflected decreases in both the inventory valuation adjustment and the capital consumption adjustment.<sup>11</sup>



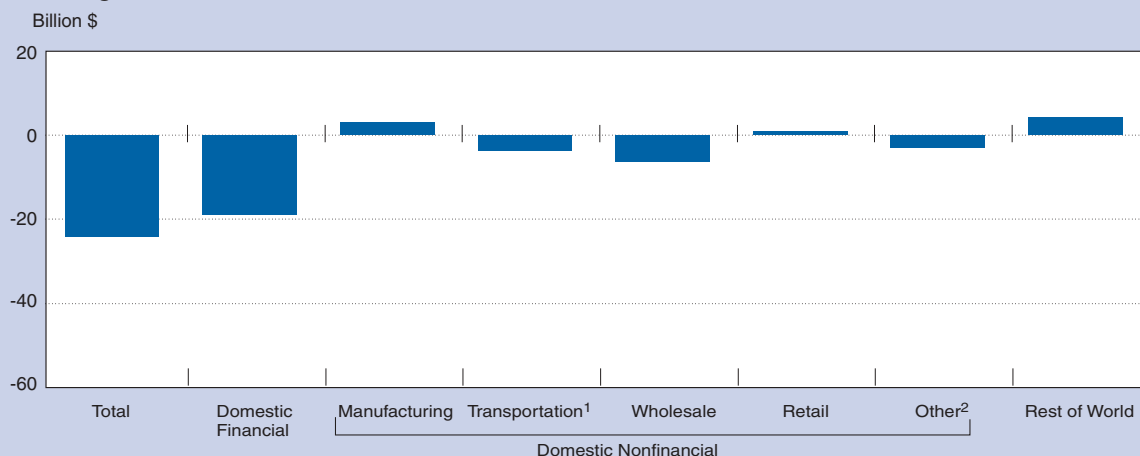
10. Domestic industry profits are estimated as the sum of corporate profits before tax and the inventory valuation adjustment; they are shown in NIPA table 6.16C (on page D-16 of this issue). Estimates of the capital consumption adjustment do not exist at a detailed industry level; they are available only for total financial and total nonfinancial industries.

11. As prices change, companies that value inventory withdrawals at original acquisition (historical) costs may realize inventory profits or losses. Inventory profits—a capital-gains-like element in profits—result from an increase in inventory prices, while inventory losses—a capital-loss-like element in profits—result from a decrease in inventory prices. In the NIPAs, inventory profits or losses are removed from business incomes by the inventory valuation adjustment (IVA: A negative IVA removes inventory profits while a positive IVA removes inventory losses.)

The capital consumption adjustment converts depreciation valued at historical cost and based on service lives and depreciation patterns specified in the tax code to depreciation valued at current cost and based on empirical evidence on the prices of used equipment and structures in resale markets. For information on depreciation in the NIPAs, see Arnold J. Katz and Shelby W. Herman, "Improved Estimates of Fixed Reproducible Tangible Wealth, 1929–95," *SURVEY* 77 (May 1997): 69–92.

**CHART 3**

**Corporate Profits with Inventory Valuation Adjustment:  
Change from 2000:IV to 2001:II**



1. Also includes communications and public utilities.

2. "Other" nonfinancial corporations includes the agriculture, mining, construction, and services industries, along with some activities included in the "finance, insurance, and real estate" group.

Note.—Based on seasonally adjusted estimates.

U.S. Bureau of Economic Analysis